

# ARIZONA *TaxNews*

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## Use Caution When Completing Amended Returns

The 1999 Form 140X has specific lines to use when subtracting the following items:

- dependent exemptions (line 16)
- age 65 or over, blind and qualifying parent and ancestor exemptions (line 18)
- subtractions from income (line 19).

For the 1999 Form 140 or any year Forms 140PY or 140NR, these exemptions are also included in the subtractions from income on the original return. Therefore, the possibility exists for a taxpayer to erroneously subtract these amounts twice.

When using the 1999 Form 140X to amend a 1999 Form 140, or Forms 140PY or 140NR for any year, the taxpayer should do the following:

- Enter the amount of his or her dependent exemptions on Form 140X, line 16 columns (a), (b), and (c) even though this amount was included in the subtractions from income on the original return.
- Reduce the amount entered on Form

140X, line 19 columns (a) and (c) by the amount entered on line 16 columns (a) and (c).

- Enter the amount of his or her age 65 or over, blind, and qualifying parents and ancestor exemptions on Form 140X, line 18 columns (a), (b), and (c) even though this amount was included in the subtractions from income on the original return.
- Reduce the amount entered on Form 140X, line 19 columns (a) and (c) by the amount entered on line 18 columns (a) and (c).

This was not clear in the original instructions for Form 140X, so appropriate notes have been added to the specific line instructions. The instructions that are now available on our Website include these notes.

## DOR Finalizing General Disclosure/Representation Authorization Form "Arizona Form 285"

Arizona Revised Statutes require written authorization to enable the Department of Revenue to disclose confidential tax information to a designee of a taxpayer ("Appointee") who is not otherwise authorized by A.R.S. § 42-2003(A) to receive taxpayer's confidential information. Except for the disclosure of withholding tax information (Arizona Form 821), the Department currently requires that the authorization be a Power of Attorney (Arizona Form 284 or similar federal

Form 2848) which, by default, grants the Appointee representational powers. However, the Department is in the process of adopting the Arizona Form 285 ("General Disclosure/Representation Authorization Form") which enables disclosure to an appointee with an option to grant the appointee various representational powers up to and including the Power of Attorney.

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[www.revenue.state.az.us](http://www.revenue.state.az.us)

### Arizona Department of Revenue Mission Statement

The purpose of the Arizona Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

## Change in City Tax Code Town of Quartsite

Effective: June 1, 2000

The Mayor and council of the town of Quartsite passed ordinance No. 00-01 increasing the Town tax rate from two percent (2%) to two and one-half percent (2.5%) on the following classifications:

Advertising, Amusements, Construction Contracting, Hotels, Job Printing, Manufactured Buildings, Timbering and other extraction, Publishing, Commercial rental of real property, Rental of tangible personal property, Restaurants and bars, Retail, Telecommunications, Transporting for hire, and Use Tax.

The tax rate for the Utility classification shall remain at zero percent (0%).

There is no pre-existing contract provision in this ordinance.

## Change in County Tax Code Cochise County

Effective: July 1, 2000

In February 22, 2000 the Cochise County Board of Supervisors passed Resolution No. 00-07 continuing the County Tax for an additional four year period ending June 30, 2004. The rate remains at ten percent

## May Summary of General Fund Revenues

	<u>February 2000</u>	<u>Fiscal Year Total</u>
<b>Individual Income Tax</b>		
Net Collections	\$84,767,690	\$1,340,727,743
Percent Change *	51.1%	7.2%
<b>Corporate Income Tax</b>		
Net Collections	\$1,481,030	\$264,837,356
Percent Change *	N/A	3.7%
<b>Transaction Privilege, Severance &amp; Use Taxes</b>		
Net Collections	\$216,519,630	\$1,850,328,628
Percent Change *	9.6%	10.2%
<b>Total Big Three Tax Types</b>		
Net Collections	\$302,768,350	\$3,455,893,727
Percent Change *	19.6%	8.4%

( ) Decrease from same month last year.

\* Percent change from same month last year.

## TAX CALENDAR

JUNE 2000

Due Date		For Period Ending
15	Income Tax Returns:	2/29/00
	Form 120: Corporation	
	Form 141: Fiduciary	
	Form 165: Partnership	
	Form 120: Corporation with Automatic Extension	8/31/99
	Form 120S: S Corporation	3/31/00
	Exempt Organizations	1/31/00
	Form 99: Annual Information Return	
	Form 99T: Unrelated Business Income	
	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	2/28/01
	Second Installment	12/31/00
	Third Installment	9/30/00
	Fourth Installment	6/30/00
20	Form TPT-1: Transaction Privilege Tax:	
	May Monthly Filers	5/31/00
	Bingo: Financial Reports	5/31/00
	Luxury Tax: Various Forms	5/31/00
26	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	May Monthly Filers	5/31/00

### Withholding Tax Payment Information:

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **exceeds** \$1,500 the employer must make its Arizona withholding payments to the Department of Revenue at the same time as the employer is required to make federal withholding deposits.

If the average amount of Arizona income taxes withheld in the preceding four calendar quarters **does not exceed** \$1,500 the employer must make its Arizona withholding payments to the department on a quarterly basis.

### \*\*\*REMINDER\*\*\*

### FOR NON-EFT TPT FILERS

**To avoid a delinquency, postmark your May 2000 TPT return no later than the 26th of the month or deliver to DOR no later than June 29, 2000.**

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from the Community Outreach & Education Section, 1600 W. Monroe, 8th floor, Phoenix, AZ 85007, or call Tony Manzo (602) 542-3062 or toll free 1-(877) 863-0655.

# Clarification to 1999 Model City Tax Code Changes

The following is a clarification of the “non-profit” deduction under the contracting classification listed in the 1999 Model City Tax Changes effective January 1, 2000. A deduction from the contracting tax base is provided for the gross proceeds of sales or gross

income attributable to providing tangible personal property, with or without a written agency agreement, for certain nonprofit entities. Those entities are qualifying hospitals, qualifying health care organizations, qualifying community health centers and organizations that

engage in and use such property exclusively for training, job placement or rehabilitation programs or testing for mentally or physically handicapped persons.

*This is a clarification of the “nonprofit” deduction under the contracting classification.*

## EZ E-File Approval for Tax Professionals

ERO (Electronic Return Originator) is a term coined by the IRS. An ERO is a tax preparer who prepares and submits an electronic return rather than a paper return.

To prepare/file electronic returns (e-file) a preparer must be approved to do so by the IRS. The federal form 8633 must be prepared and submitted to the IRS for approval.

Software that has been approved for use by the IRS and the State of Arizona must be used. Upon acceptance of your application, you will receive an informational package listing software vendors that are approved for use in the Federal/State *e-file* program.

Generally the same software is used to prepare a paper or electronic return. The Federal and State data for an individual income taxpayer are combined into one electronic record by the

electronic filer's software. The record is then transmitted to the Internal Revenue Service where acceptability edits are performed and receipt of the return is acknowledged. The State then retrieves the state packet from the IRS and prepares an acknowledgment of receipt for the electronic filer.

In order to use the *e-file* program you will need to acquire the following from the list provided with the information package:

➤ Electronic filer's software to develop the returns.

➤ Method to send returns and a method to receive acknowledgment.

In 1998 more than 3,400

returns were e-filed, in 1999 more than 143,000 returns were e-filed, and in 2000 so far more than 238,000 returns were e-filed. The Department of Revenue estimates over 600 tax preparers in Arizona are ERO, doing Arizona e-file.

To participate in Arizona, a copy of the 8633 & a copy of the approval letter received from the IRS must be sent to:

*Alternative Ways of Filing  
Manager  
Arizona Department of  
Revenue  
1600 West Monroe  
Phoenix AZ 85007.*

*“To prepare/file electronic returns (e-file) a preparer must be approved to do so by the IRS.”*



*"The Department has recently adopted the Arizona Form 285 which enables disclosure to an appointee with an option to grant the appointee various representational powers up to and including the Power of Attorney."*

## "Arizona Form 285"

*(Continued from page 1)*

The Department is also in the process of adopting sub-forms of the Form 285 (Forms 285A, 285B, 285C, 285I) which are designed to meet the needs of taxpayers working with specific sections of the Department. Forms 285A and 285B are simplified versions of the Form 285 which only authorize the Department to release taxpayer's confidential information to an appointee of taxpayer. Thus, these forms cannot grant any representational powers to the appointee.

- Form 285A is specially designed to meet the needs of taxpayers working with the Corporate Income Tax and Transaction Privilege and Use Tax Audit Sections.
- Form 285B is specially designed to

meet the needs of business taxpayers working with the Taxpayer Support and Compliance Divisions.

- Form 285C is for the purpose of certifying that the person signing the return is a principal corporate officer of the corporation and thus is authorized to receive confidential information.
- Form 285I is a simplified version of Form 285 that can authorize disclosure and grant representational powers to an appointee of a taxpayer. Form 285I is specifically designed for taxpayers working with the Individual Income Tax Audit Section.

*"A joint audit will allow the taxpayer to have one audit for all taxing jurisdictions in which the taxpayer conducts business."*

## Effective July 1, 2000: Joint Audits

The recent passage of Senate Bill 1513 will change how transaction privilege tax audits will be conducted. The following is an overview of the bill:

A.R.S. §42-6005 establishes that when the Department of Revenue or a City/Town conducts an audit of a taxpayer, the audit will include an audit for any jurisdiction (municipality) in which the taxpayer does business. Audits conducted for multiple jurisdictions are known as "joint audits".

A joint audit will allow the taxpayer to have one audit for all taxing jurisdictions in which the taxpayer conducts business.

A taxpayer will have the option of declining a joint audit. If the taxpayer declines to allow a joint audit, the taxpayer will be subject to an audit by another jurisdiction at any time. A City/Town may also decline to participate in a joint audit; however, the City/Town that declines will not be able to conduct an audit on the taxpayer for 42 months.

The Unified Audit Committee shall publish uniform guidelines that interpret the model city tax code and the Guidelines shall apply to all cities and towns that have adopted the Model City Tax Code. When

the Arizona Revised Statutes and Model City Tax Code are the same and the Department of Revenue has issued written guidance, the Department's interpretation is binding on the cities and towns.

Beginning July 1, 2001 a Municipal Tax Hearing Office is established under A.R.S. §42-6056. The hearing office will hear all reviews of petitions for hearing or redetermination under the Model City Tax Code for cities and towns not in the state collection system. The hearing office will also hear appeals from audits conducted by a city or town in the state collection system, if the audit was conducted by a city or town's independent auditor.

A.R.S. §42-6003 is modified. If a city or town cannot resolve a dispute regarding taxability jurisdiction, the issue may be submitted to the Municipal Tax Code Commission. Previously, these disputes were submitted to the State Board of Tax Appeals. A decision made by the Municipal Tax Code Commission may then be appealed to the State Board of Tax Appeals within thirty days after notice of the decision has been received.

# Arizona Transaction Privilege Tax

## Procedure TPP 00-1 Summary

### **Issue:**

This procedure provides guidance to retailers and other taxpayers that factor their taxes from their gross proceeds of sales or gross income derived from the business, rather than separately stating the taxes. This procedure is inapplicable for persons subject to tax under the prime contracting classification.

### **Discussion & Procedure:**

Factoring is a mathematical process that calculates the tax from the seller's receipts, when a tax amount was not separately identified. This method of tax computation is commonly employed when the seller wants the total charge to the purchaser to be a flat amount. Examples of common factoring situations include a vendor at a sporting event that charges a dollar for a soft drink, and an artisan that charges ten dollars for a handcrafted item at an Arts and Crafts Festival. While both sellers have the option of separately charging the tax, it is a convenience to both the seller and the purchaser in such situations to charge a flat amount.

Any seller may opt to factor transaction privilege tax and county excise tax, rather than separately charging the customer for the tax expense. However, an out-of-state seller that is required to collect the Arizona use tax is prohibited from factoring this tax by A.R.S. § 42-5165; the use tax must always be separately stated on the purchaser's invoice and in the seller's records, and is not allowed to be factored. Arizona cities also allow factoring for purposes of computing city privilege taxes, as authorized by Model City Tax Code Section 250(b). Most sellers will have the same amount of taxable receipts from which to factor city privilege tax, state transaction privilege tax, and applicable county excise taxes. Therefore, a relatively easy computation can be used to determine the taxes to be reported to the city, and the taxes to be reported to the state. Any method of extracting the tax from the seller's receipts is acceptable, as long as the correct amount of tax is determined. The typical factoring method is to divide the gross taxable receipts (the Gross Sales Receipts minus all exempt sales and deductions other than tax), by 1 plus the tax

rate(s) expressed as a decimal. The result of this calculation is then multiplied by the tax rate, producing the reportable tax. A decimal factor can also be derived, and used for all similar transactions that have the same tax rate.

### **Special Factoring Situations:**

Rare situations exist where city taxable receipts will be different from state taxable receipts. The transaction privilege tax statutes contained in Title 42 of the Arizona Revised Statutes govern the determination of a seller's taxable receipts from which the applicable state transaction privilege tax and associated county excise taxes may be factored. Model City Tax Code provisions, which sometimes vary by city, govern the determination of taxable receipts from which the city privilege tax may be factored. Deductions, exemptions, or business classifications contained in Title 42 may differ from those contained in the Model City Tax Code. Therefore, a single transaction may produce different amounts of taxable receipts for city and state purposes.

For sales to which both state/county and city taxes apply, but to different tax bases; algebraic equations may be utilized to determine the correct factored tax amounts. These equations take into account the different tax bases, and that the state and county taxes are allowed as a deduction in computing the city privilege tax, and vice versa. Please contact the department for advice about the development of algebraic equations for difficult taxing scenarios.

### **Additional note:**

For transaction privilege tax and county excise tax purposes, a deduction for a bad debt is allowed for a sale previously reported. Taxpayers using a factoring method to determine a tax amount at the time of initially reporting the tax, must factor out this tax amount before deducting a bad debt expense at a later date. This is necessary in order to adjust the bad debt deduction to the true sales price less the factored tax.

*For more information  
see the complete TPP 00-1 at the  
Arizona Department of Revenue Website:  
[www.revenue.state.az.us](http://www.revenue.state.az.us)*

*"Sellers have the option of separately charging the tax, it is a convenience to both the seller and the purchaser in such situations to charge a flat tax amount."*

# Arizona Transaction Privilege Tax

## Procedure TPP 00-2 Summary

*“While the prime contractor has the option of separately charging the tax, it is often more convenient to charge a flat price and factor the tax later.”*

### **Issue:**

This procedure provides guidance to persons subject to tax under the prime contracting classification, that factor their taxes from their gross proceeds of sales rather than separately stating the taxes.

### **Discussion and Procedure:**

Factoring is a mathematical process that extracts the tax from the seller's taxable receipts, when a tax amount was not separately identified to the purchaser. This method of tax computation is usually employed when the seller wishes to charge the purchaser a flat amount. An example of a common factoring situation for a prime contractor is a plumber who charges a flat sixty dollars for the replacement of a water pipe. While the prime contractor has the option of separately charging the tax, it is often more convenient to charge a flat price and factor the tax later. Any prime contractor may opt to factor transaction privilege tax and county excise tax.

Arizona cities also allow factoring for purposes of computing city privilege taxes, as authorized by Model City Tax Code Section 250(b). Often, contractors have identical amounts of taxable receipts that are subject to both state/county and city taxes. However, situations exist where city taxable receipts will be different from state taxable receipts. The transaction privilege tax statutes contained in Title 42 of the Arizona Revised Statutes govern the determination of a prime contractor's taxable receipts from which the applicable state transaction privilege tax and associated county excise taxes may be factored. Model City Tax Code provisions, which sometimes vary by city, govern the determination of taxable receipts from which the city privilege tax may be factored.

The Model City Tax Code's business classifications applicable to prime contractors, differ markedly in many respects from Title 42 statutes applicable to the same businesses.

Therefore, a single transaction may produce different amounts of taxable receipts for city and state purposes. For prime contracting scenarios in which state/county and city taxes

apply to different tax bases; algebraic equations may be utilized to determine the correct factored tax amounts. For some builders, a primary difference involved in factoring state/county and city taxes, is that while A.R.S. § 42-5075(B)(1) provides a deduction for the "sales price of land, which shall not exceed the fair market value", many cities either do not allow a deduction for land or allow the deduction only at cost rather than fair market value. The department has developed worksheets that may simplify the process of determining the correct state/county and city taxes, and the manner in which to complete the tax forms.

### **Additional note:**

For transaction privilege tax and county excise tax purposes, a deduction for a bad debt is allowed for a sale previously reported. Taxpayers using a factoring method to determine a tax amount at the time of initially reporting the tax, must factor out this tax amount before deducting a bad debt expense at a later date. This is necessary in order to adjust the bad debt deduction to the true sales price less the factored tax.

To obtain factoring tables or Contracting Tax Factoring Worksheets and examples, please contact either of the following department sections or access the department's Website:  
[www.revenue.state.az.us](http://www.revenue.state.az.us)

*Transaction Privilege Tax and Use Tax  
Audit Section or  
Taxpayer Information and Assistance  
Section*

Call: (602) 255-2060 or (800) 843-7196

# Arizona Transaction Privilege Tax

## Procedure TPP 00-3 Summary

### **Issue:**

This procedure provides guidance to taxpayers and consumers in the use of departmental certificates in claiming deductions and exclusions from Arizona transaction privilege tax.

### **Background:**

Arizona imposes a transaction privilege tax that differs from the sales tax imposed by most states. The Arizona transaction privilege tax is a tax imposed on the privilege of conducting business in the State of Arizona. This tax is levied on the vendor, not the purchaser. The vendor may pass the burden of the tax on to the purchaser; however, the vendor is ultimately liable to Arizona for the tax.

The transaction privilege tax is imposed under seventeen separate business activity classifications. Each classification has its own deductions and exemptions.

Exemptions depend on a number of variables, such as whether the purchaser is qualified to purchase items tax free for use or for resale or whether the product itself is tax exempt.

In order to establish entitlement to any of the transaction privilege tax exemptions under the separate classifications, a purchaser may provide a certificate to the vendor, citing the basis for the deduction or exemption.

The department has issued a general exemption certificate and several special certificates to be used in documenting that a transaction is not subject to transaction privilege tax. The following is a list of current certificates issued by the department, as well as certificates approved by the department that have been issued by other organizations.

#### **Certificate Number/Title**

- **Arizona Form 5000**/*Arizona Department of Revenue Transaction Privilege Tax Exemption Certificate.*
- **Arizona Form 5000A**/*Arizona Transaction Privilege Tax Resale Certificate*
- **Arizona Form 5003**/*Arizona Department*

*of Revenue Transaction Privilege Tax Exemption Certificate For Commercial Enhancement Reuse District Projects.*

- **Arizona Form 5004**/*Arizona Department of Revenue Transaction Privilege and Use Tax Used Oil Burner Exemption Certificate.*
- **Arizona Form 5006**/*Arizona Department of Revenue Transaction Privilege and Use Tax Overhead Exemption Certificate.*

**Note:** Previous Arizona Form 5001, *Arizona Department of Revenue Transaction Privilege Tax Exemption Certificate for Native Americans* and Arizona Form 5002, *Arizona Department of Revenue Transaction Privilege Tax Exemption Certificate for Nonresidents* have been rescinded. The information previously contained in these certificates has been consolidated on the Arizona Form 5000. In addition, pursuant to A.R.S. § 42-5075, the department has adopted ADOR Form 5005, *Prime Contractor's Certificate*. Please see the form and instructions for details on its use.

### **APPROVED NON-DEPARTMENTAL CERTIFICATES**

#### **Certificate**

- Uniform Sales and Use Tax Certificate Multijurisdiction
- Border States Uniform Sale for Resale Certificate

*For more information see the complete TPP 00-3 at the Arizona Department of Revenue Website:*

[www.revenue.state.az.us](http://www.revenue.state.az.us)

*“Exemptions depend on a number of variables, such as whether the purchaser is qualified to purchase items tax free for use or for resale or whether the product itself is tax exempt.”*

## **Construction Industry Workshops**

**Cost: \$25 per person\***

### **Who should attend?**

Tax Professionals and Contractors - Large and small / General and Sub Contractors / Landscapers /Installers

### **What you will learn:**

This seminar is designed to assist Tax Professionals and those in the construction industry to understand the transaction privilege tax requirements. You will leave with a better understanding of the prime contracting classification, how the department determines prime contractors vs. subcontractors, how and when to use resale and subcontracting certificates, and much more! You will receive a copy of the statutes, rules and worksheets that can help you to figure out your transaction privilege tax liability. It is recommended, that to better understand your classification and reporting requirements, you attend this workshop prior to attending the *TPT Forms – How to Report Correctly*.

## **Retail Workshops**

**Cost: \$25 per person\***

### **Who should attend?**

Tax Professionals Retailers - Large and small / Wholesalers / Internet Sales Mail Order / Sales to the US Government, State, Cities, and/or Counties / Sales to Non-Profit Organizations

### **What you will learn:**

This seminar is designed to help you understand the Retail Classification under the Transaction Privilege Tax that is imposed in our state. When you finish the seminar you will leave with a better understanding of the classification, deduction and exemptions that are allowed for the classification, and various Department forms that are used in this classification. It is recommended, that to better understand your classification and reporting requirements, you attend this workshop prior to attending the *TPT Forms – How to Report Correctly*.



For additional information about other available seminars including locations and costs, call Community OutReach and Education Section  
1-(602) 542-3062 or, toll-free from elsewhere in Arizona,  
1-(877) 863-0655.

**\*Non-Refundable Cost**